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EXAMINER
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GREGG, MARY M

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UNITED STATES PATENT AND TRADEMARK OFFICE

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BEFORE THE PATENT TRIAL AND APPEAL BOARD

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*Ex parte* SULEIMAN SAMANDAR,  
JASON LAMACCHIA, and  
ANDREW S. JOSEF

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Appeal 2015-001515  
Application 13/164,555<sup>1</sup>  
Technology Center 3600

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Before HUBERT C. LORIN, TARA L. HUTCHINGS, and  
MATTHEW S. MEYERS, Administrative Patent Judges.

LORIN, *Administrative Patent Judge*.

DECISION ON APPEAL

STATEMENT OF THE CASE

Suleiman Samandar et al. (Appellants) seek our review under 35 U.S.C. § 134 of the final rejection of claims 1–25. We have jurisdiction under 35 U.S.C. § 6(b) (2002).

SUMMARY OF DECISION

We AFFIRM.

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<sup>1</sup> The Appellants identify Blackrock Fund Advisors as the real party in interest. App. Br. 2.

## THE INVENTION

Claim 1, reproduced below, is illustrative of the subject matter on appeal.

1. A method for creating shares of an exchange traded fund, the method comprising:

publishing an electronic portfolio composition file on a non-transitory computer readable medium by a computing system of a fund manager that administers the exchange traded fund (ETF), the portfolio composition file specifying a creation basket of assets that includes a long position from purchasing a set of equities, a short position from a short sale of a set of equities, and an additional long position from purchasing a set of equities using proceeds from the short sale;

electronically receiving a creation request from an authorized participant at the computing system of the fund manager;

receiving from the authorized participant an in-kind transfer of the assets in the creation basket specified in the published portfolio composition file, the received assets including the specified long position, short position, and additional long position using proceeds from the short sale; and

initiating an ETF creation transaction on a primary market by the computing system of the fund manager, the ETF creation transaction providing shares of the ETF from the fund manager to the authorized participant in exchange for the in-kind transfer of the assets in the creation basket specified in the published portfolio composition file.

## THE REJECTIONS

The Examiner relies upon the following as evidence of unpatentability:

Gastineau

US 2001/0025266 A1

Sept. 27, 2001

Sauter (hereinafter “Sauter ’749”)	US 7,720,749 B2	May 18, 2010
Haines	US 2011/0055112 A1	Mar. 3, 2011
Spirgel	US 2012/0011049 A1	Jan. 12, 2012
Wester	US 8,229,828 B1	July 24, 2012

ETFs, FUTURES AND SWAPS-NORTH AMERICA, DELTA ONE  
HANDBOOK, CREDIT SUISSE (Sept. 2009) (hereinafter “Credit”)

*Repurchase Agreements (Repo and Strips)*, CREDIT AND FINANCE RISK  
ANALYSIS (Nov. 1, 2012, 12:26 PM) <http://web.archive.org/web/20050217071349/http://credfinrisk.com/repos.html> (hereinafter  
“Risk”)

Condensed Consolidated Statement of Financial Condition, Goldman  
Sachs Execution and Clearing LP and Subsidiaries, May 30, 2008  
(hereinafter “Goldman”).

U.S. Securities and Exchange Commission, *SEC Final Rules*,  
(available at [http:// https://www.sec.gov/rules/final.shtml](http://https://www.sec.gov/rules/final.shtml)) (hereinafter  
“Commission”). Final Act. 28.

The following rejections are before us for review:

1. Claims 1–25 are rejected under 35 U.S.C. § 101 as being directed to non-statutory subject matter.
2. Claims 1 and 3 are rejected under 35 U.S.C. § 103(a) as being unpatentable over Gastineau, Haines, and Credit.
3. Claims 2 and 4 are rejected under 35 U.S.C. § 103(a) as being unpatentable over Gastineau, Haines, Credit, and Risk.
4. Claims 5 and 18 are rejected under 35 U.S.C. § 103(a) as being unpatentable over Gastineau, Haines, Credit, and Goldman.
5. Claim 19 is rejected under 35 U.S.C. § 103(a) as being unpatentable over Gastineau, Haines, Credit, and Wester.

6. Claim 24 is rejected under 35 U.S.C. § 103(a) as being unpatentable over Gastineau, Haines, Credit, and Sauter '749.
7. Claims 6 and 8 are rejected under 35 U.S.C. § 103(a) as being unpatentable over Haines, Gastineau, and Credit.
8. Claim 7 is rejected under 35 U.S.C. § 103(a) as being unpatentable over Haines, Gastineau, Credit, and Risk.
9. Claim 20 is rejected under 35 U.S.C. § 103(a) as being unpatentable over Haines, Gastineau, Credit, and Wester.
10. Claim 21 is rejected under 35 U.S.C. § 103(a) as being unpatentable over Haines, Gastineau, Credit, and Spirgel.
11. Claims 22 and 23 are rejected under 35 U.S.C. § 103(a) as being unpatentable over Haines, Gastineau, Credit, and Commission.
12. Claim 25 is rejected under 35 U.S.C. § 103(a) as being unpatentable over Gastineau, Haines, Credit, and Sauter '749.
13. Claims 9 and 11 are rejected under 35 U.S.C. § 103(a) as being unpatentable over Haines and Credit.
14. Claims 10 and 13 are rejected under 35 U.S.C. § 103(a) as being unpatentable over Haines and Risk.
15. Claims 12 and 14 are rejected under 35 U.S.C. § 103(a) as being unpatentable over Haines, Credit, and Goldman.
16. Claims 15 and 17 are rejected under 35 U.S.C. § 103(a) as being unpatentable over Haines, Gastineau, and Credit.
17. Claim 16 is rejected under 35 U.S.C. § 103(a) as being unpatentable over Haines, Gastineau, Credit, and Risk.

## ISSUES

Did the Examiner err in rejecting claims 1–25 are rejected under 35 U.S.C. § 101 as being directed to non-statutory subject matter?

Did the Examiner err in rejecting, under 35 U.S.C. §103(a), claims 1 and 3 as being unpatentable over Gastineau, Haines, and Credit; claims 2 and 4 as being unpatentable over Gastineau, Haines, Credit, and Risk; claims 5 and 18 as being unpatentable over Gastineau, Haines, Credit, and Goldman; claim 19 as being unpatentable over Gastineau, Haines, Credit, and Wester; claim 24 as being unpatentable over Gastineau, Haines, Credit, and Sauter '749; claims 6 and 8 as being unpatentable over Haines, Gastineau, and Credit; claim 7 as being unpatentable over Haines, Gastineau, Credit, and Risk; claim 20 as being unpatentable over Haines, Gastineau, Credit, and Wester; claim 21 as being unpatentable over Haines, Gastineau, Credit, and Spirgel; claims 22 and 23 as being unpatentable over Haines, Gastineau, Credit, and Commission; claim 25 as being unpatentable over Gastineau, Haines, Credit and Sauter '749; claims 9 and 11 as being unpatentable over Haines and Credit; claims 10 and 13 as being unpatentable over Haines and Risk; claims 12 and 14 as being unpatentable over Haines, Credit, and Goldman; claims 15 and 17 as being unpatentable over Haines, Gastineau, and Credit; and, claim 16 as being unpatentable over Haines, Gastineau, Credit, and Risk?

## FINDINGS OF FACT

We rely on the Examiner's factual findings stated in the Answer. Additional findings of fact may appear in the Analysis below.

## ANALYSIS

*The rejection of claims 1–25 under 35 U.S.C. § 101 as being directed to non-statutory subject matter.*

The Appellants argued these claims as a group. *See* App. Br. 2–5. We select claim 1 as the representative claim for this group, and the remaining claims 2-25 stand or fall with claim 1. 37 C.F.R. § 41.37(c)(1)(iv).

*Alice Corp. Party Ltd. v. CLS Bank International*, 134 S. Ct. 2347 (2014) identifies a two-step framework for determining whether claimed subject matter is judicially-excepted from patent eligibility under § 101.

According to Alice step one, “[w]e must first determine whether the claims at issue are directed to a patent-ineligible concept,” such as an abstract idea. *Alice*, 134 S. Ct. at 2355. In this regard, the Examiner found the claims are directed towards creating shares of an exchange fund. The creation of an exchange fund is a fundamental economic practice and thus, the claims include an abstract idea.” Ans. 2. The Appellants disagree.

According to the Appellants,

[t]he claimed steps perform more than “creating an exchange-traded fund” and are not a claim on this abstract idea alone. The claims do not preclude a “building block of human ingenuity.” Indeed, exchange-traded funds could be, and are, created by many other methods, for example by exchanges which are not in-kind, do not use a primary market, and do not use the assets specified in the claimed portfolio composition file. Indeed, the examiner’s own references teach several other examples of “creating an exchange-traded fund” that are not preempted by the present claims.

Reply Br. 4.

Notwithstanding the claimed steps perform more than “creating an exchange-traded fund” as the Appellants argue, we do not see, and the

Appellants do not adequately explain, how the additional limitations transform the claimed subject matter such that claim 1 is not directed to the abstract idea as the Examiner found.

We must “look at the ‘focus of the claimed advance over the prior art’ to determine if the claim’s ‘character as a whole’ is directed to excluded subject matter.” *Affinity Labs of Texas v. DirectTV, LLC*, 838 F.3d 1253, 1257 (Fed. Cir. 2016) (quoting *Elec. Power Grp., LLC v. Alstom S.A.*, 830 F.3d 1350, 1353 (Fed. Cir. 2016); *see also Enfish, LLC v. Microsoft Corp.*, 822 F.3d 1327, 1335 (Fed. Cir. 2016).

Here claim 1 sets out steps for creating a portfolio composition file with certain information; receiving a creation request; receiving an in-kind transfer of the assets in the creation basket specified in the published portfolio composition file; and, initiating an exchange traded fund (ETF) creation transaction providing shares in exchange for the in-kind transfer of the assets in the creation basket specified in the published portfolio composition file. The steps are specific but the additional details do little to change their character. Their focus is on presenting a strategy, albeit a specific one. Presenting a more specific strategy, however, is insufficient to ensure that the claimed subject matter as a whole amounts to significantly more than to be upon the abstract idea itself.

The Specification supports the view that the method as claimed presents a strategy. The “invention relates generally to financial services and products, and more particularly to financial systems that enable a leveraged long/short management strategy for an exchange traded fund (ETF).” Spec., para. 1. “For a number of reasons, it is difficult to



implement an effective levered long/short strategy in the management of an ETF.” *Id.* at para. 4.

Embodiments of the invention enable executing a long/short strategy for an ETF that leverages the short positions to generate additional exposure to equities, referred to as levered longs. In a long/short strategy, in accordance with one embodiment of the invention, the fund’s strategy involves (1) buying fully funded equities that are expected to overperform, (2) selling short equities that are expected to underperform, and (3) buying additional equities that are expected to overperform using proceeds generated from the short sales. This is achieved for an ETF by creating and redeeming ETF shares, wherein the ETF fund manager specifies (e.g., in a portfolio composition file, or PCF) which equities to buy and which equities to sell short. To create shares of the ETF, an authorized participant transfers these specified positions to the fund manager “in kind” in exchange for ETF shares.

*Id.* at para. 5.

Claim 1, as reasonably broadly construed in light of the Specification as it would be interpreted by one of ordinary skill in the art, describes a specific strategy. While this specific strategy may prevent pre-emption of all strategies for “creating an exchange-traded fund,” it does not make the claimed subject matter any less directed to an abstract idea. *Cf. OIP Techs., Inc. v. Amazon.com, Inc.*, 788 F.3d 1359, 1362-63 (Fed. Cir.), cert. denied, 136 S. Ct. 701, 193 L. Ed. 2d 522 (2015) (“[T]hat the claims do not preempt all price optimization or may be limited to price optimization in the e-commerce setting do not make them any less abstract.”)

For these reasons, the Appellants do not persuade us that the Examiner erred in finding claim 1 is directed to an abstract idea.

Because the claimed subject matter covers patent-ineligible subject matter, the preemption concern is necessarily addressed. “Where a patent’s claims are deemed only to disclose patent ineligible subject matter under the

*Mayo* framework, . . . preemption concerns are fully addressed and made moot.” *Ariosa Diagnostics, Inc. v. Sequenom, Inc.*, 788 F.3d 1371, 1379 (Fed. Cir. 2015).

Step two is “a search for an ‘inventive concept’—i.e., an element or combination of elements that is ‘sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the [ineligible concept] itself.’” *Alice*, 134 S. Ct. at 2355 (alteration in original) (quoting *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1294 (2012)).

In this regard, the Appellants argue that “the claims specify further limitations that transform the ‘abstract idea’ into ‘something more.’” Reply Br. 4. According to the Appellants, the “something more” is said to be “a published portfolio composition file and in-kind exchange of assets as described by the claims,” which the Appellants characterize as the inventive concept. *Id.* at 5. The Appellants also point to other limitations in certain dependent claims which further limit the strategy. *Id.* The argument also relies on finding that “no combination of cited art teaches” said strategy. *Id.*

The argument is unpersuasive. The Appellants show by their argument that the focus of the claimed subject matter is on the abstract idea itself, and not on any technology. It is “relevant to ask whether the claims are directed to an improvement in computer functionality versus being directed to an abstract idea.” *Enfish, LLC v. Microsoft Corp.*, 822 F.3d 1327, 1335 (Fed. Cir. 2016). Here, as the Appellants have argued, “the focus of the claims is [not] on [any] specific asserted improvement in computer capabilities . . . [but], instead, on a process that qualifies as an

‘abstract idea’ for which computers are invoked merely as a tool.” *Id.* at 1335–36.

Regarding novelty, indeed, “[t]he ‘novelty’ of any element or steps in a process, or even of the process itself, is of no relevance in determining whether the subject matter of a claim falls within the § 101 categories of possibly patentable subject matter.” *Diamond v. Diehr*, 450 U.S. 175, 188–89 (1981) (emphasis added).

The remaining arguments are unpersuasive as to error in the rejection.

For the foregoing reasons, the rejection is sustained.

*The rejections, under 35 U.S.C. §103(a), of claims 1 and 3 as being unpatentable over Gastineau, Haines, and Credit; claims 2 and 4 as being unpatentable over Gastineau, Haines, Credit, and Risk; claims 5 and 18 as being unpatentable over Gastineau, Haines, Credit, and Goldman; claim 19 as being unpatentable over Gastineau, Haines, Credit, and Wester; claim 24 as being unpatentable over Gastineau, Haines, Credit, and Sauter ’749; claims 6 and 8 as being unpatentable over Haines, Gastineau, and Credit; claim 7 as being unpatentable over Haines, Gastineau, Credit, and Risk; claim 20 as being unpatentable over Haines, Gastineau, Credit, and Wester; claim 21 as being unpatentable over Haines, Gastineau, Credit, and Spiegel; claims 22 and 23 as being unpatentable over Haines, Gastineau, Credit, and Commission; claim 25 as being unpatentable over Gastineau, Haines, Credit and Sauter ’749; claims 9 and 11 as being unpatentable over Haines and Credit; claims 10 and 13 as being unpatentable over Haines and Risk; claims 12 and 14 as being unpatentable over Haines, Credit, and Goldman; claims 15 and 17 as being unpatentable over Haines, Gastineau, and Credit; and, claim 16 as being unpatentable over Haines, Gastineau, Credit, and Risk.*

The Appellants argue that “the examiner errs in finding support in a combination of Gastineau and Haines for an in-kind exchange that includes an additional long position using the proceeds of a short sale for a short position included in the in-kind exchange as required by claim 1.” Reply Br. 9. We agree.

Claim 1 requires a “portfolio composition file specifying a creation basket of assets that includes a long position from purchasing a set of equities, a short position from a short sale of a set of equities, and *an additional long position from purchasing a set of equities using proceeds from the short sale.*” Appeal Br., Claims App. (Claim 1). Independent claim 6 contains a similar limitation.

The Examiner’s position is that said claim limitation is disclosed in: (1) “(Gastineau) in at least Abstract; FIG. 2 and associated text, FIG. 4-5 and associated text; para 0030-0035, para 0041-0043, para 0047-0048, para 0057, para 0059” (Final Act. 7); (2) “(Credit) in at least page 2 wherein the prior art teaches ‘ETFs can be used to take long-short positions in various combinations. The positions may relate to size, style, sector, or industry outlook’; page 6-7)” (*id.* at 9) (emphasis omitted); and (3) “(Haines) in at least para 0041-0043; wherein the prior art teaches using proceeds from short sale in order to support long positions” (*id.* at 10) (emphasis omitted). The Examiner takes a similar position with respect to claim 6. *See id.* at 20–25.

We have reviewed said disclosures. Gastineau discloses “hedging techniques for exchange traded funds or similar basket products.” Gastineau, para. 1. Paragraphs 30–35, for example, describe “an embodiment of the

intra-day valuation proxy process,” focusing on how “to calculate the net asset value proxy.” *Id.* at para. 32. Credit describes how to “use . . . multiple hedging sources (ETF shares, futures, and stock baskets) . . . in conjunction with the creation / redemption process.” Credit 2. Pages 6 and 7 describe futures contracts and swaps. And Haines describes transactions involving ETFs. Paragraph 42 of Haines states that “[t]he transactions that allow the ETF to take a long position in the structured futures and the ETF sponsor to take a short position in the structured future can be accomplished electronically using computers communicating through a computer communications network.” Each of these references provide general disclosures that could lead one to use EFTs to take long and/or short positions. But as the sole evidence, they are inadequate to lead one further to create a “portfolio composition file specifying a creation basket of assets *that includes . . . an additional long position from purchasing a set of equities using proceeds from the short sale.*” Appeal Br., Claims App (Claim 1) (emphasis added).

Accordingly, we find that a prima facie case has not been established for the subject matter of claims 1 and 6 in the first instance by a preponderance of the evidence. We reach the same conclusion as to claims 2–5, 18, 19, and 24, and claims 7, 8, 20–23, and 25 that depend from claims 1 and 6, respectively.

The other independent claims, 9 and 15, call for a “portfolio composition file specifying a creation basket of assets that includes *a leveraged long position in a set of equities.*” As the Appellants point out, the Specification discloses that “long holdings include the levered long

positions resulting from purchases made using the proceeds from the short sales associated with the short positions.” Appeal Br. 15 (citing Spec., para. 17). Accordingly, the broadest reasonable construction for “a leveraged long position in a set of equities” in light of the Specification, as it would be interpreted by one of ordinary skill in the art, arguably refers to holdings resulting from purchases made using proceeds from short sales associated with short positions. The rejections of claims 9 and 15 do not contain a claim construction analysis and, thus, the claims were not read in light of the Specification. Moreover, the same Gastineau, Haines, and Credit passages used to support finding that the claim 1 limitation “an additional long position from purchasing a set of equities using proceeds from the short sale” is disclosed in the prior art also are relied upon as evidence that said claim limitation is disclosed. *See* Final Act. 31–34 (claim 9), *id.* at 37–40 (claim 15). But as explained, these passages provide only general discussions that could lead one to use EFTs to take long and/or short positions. Absent other evidence, these passages are inadequate to lead one of ordinary skill further to create a “portfolio composition file specifying a creation basket of assets that includes a *leveraged long position* in a set of equities” (emphasis added), as that phrase is reasonably broadly construed.

Accordingly, we find that a *prima facie* case has not been established for the subject matter of claims 9 and 15 in the first instance by a preponderance of the evidence. We reach the same conclusion as to claims 10–14, and claims 16 and 17 that depend from claims 9 and 15, respectively.

### CONCLUSIONS

The rejection of claims 1–25 under 35 U.S.C. § 101 as being directed to non-statutory subject matter is affirmed.

The rejections, under 35 U.S.C. § 103(a), of claims 1 and 3 as being unpatentable over Gastineau, Haines, and Credit; claims 2 and 4 as being unpatentable over Gastineau, Haines, Credit, and Risk; claims 5 and 18 as being unpatentable over Gastineau, Haines, Credit, and Goldman; claim 19 as being unpatentable over Gastineau, Haines, Credit, and Wester; claim 24 as being unpatentable over Gastineau, Haines, Credit, and Sauter '749; claims 6 and 8 as being unpatentable over Haines, Gastineau, and Credit; claim 7 as being unpatentable over Haines, Gastineau, Credit, and Risk; claim 20 as being unpatentable over Haines, Gastineau, Credit, and Wester; claim 21 as being unpatentable over Haines, Gastineau, Credit, and Spirgel; claims 22 and 23 as being unpatentable over Haines, Gastineau, Credit, and Commission; claim 25 as being unpatentable over Gastineau, Haines, Credit and Sauter '749; claims 9 and 11 as being unpatentable over Haines and Credit; claims 10 and 13 as being unpatentable over Haines and Risk; claims 12 and 14 as being unpatentable over Haines, Credit, and Goldman; claims 15 and 17 as being unpatentable over Haines, Gastineau, and Credit; and, claim 16 as being unpatentable over Haines, Gastineau, Credit, and Risk are reversed.

### DECISION

The decision of the Examiner to reject claims 1–25 is affirmed.

Appeal 2015-001515  
Application 13/164,555

No time period for taking any subsequent action in connection with this appeal may be extended under 37 C.F.R. § 1.136(a)(1)(iv).

AFFIRMED